Telecommunications Research and Action Center ("TRAC"),[115] which describes its primary goal as "promot[ing] the interests of residential telecommunications customers."[116] TRAC has published what it claims to be "independent' studies (all with nearly identical conclusions) for several other Verizon states, plus California, Illinois, Florida and Georgia. The studies purport to show that consumers will "benefit" from BOC entry into the long distance market in the form of lower prices for long distance and local services.

99. The conclusions reached by TRAC in its various studies are not credible. First. although TRAC poses as an advocate for consumer interests, the organization's funding can be traced back to the RBOCs. Second. and more importantly, the methodology that TRAC employs is seriously flawed and grossly exaggerates the savings, if any, that consumers might plausibly obtain from RBOC long distance entry. Appendix I to this affidavit contains a substantive review of the independence of these "studies." and shows that they do not stand up to any serious analytical scrutiny. Any reliance by the Commission upon the conclusions of these studies or upon any extrapolations or inferences derived therefrom would be highly misplaced.

115. In response to discovery, Verizon DC did identify "the studies conducted by TRAC" as being "analyses, reports or other documents relating to the purported benefits from Verizon's long distance entry in New York. Massachusetts. New Jersey and Pennsylvania." See. Verizon DC response to AT&T Data Request 4-2.

116. http://www.trac.org/about/index.html, accessed 09/18/02.

CONCLUSION

Verizon DC has failed to present adequate evidence via its Section 271 application for this Commission to conclude that a grant of authority to enter the in-region long distance market in the District of Columbia is in the public interest.

100. In considering Verizon DC's Section 271 Application and in making its consultative recommendation to the FCC. the Commission should recognize that the failure of meaningful and effective competition to develop in the District's local services market despite years of regulatory attention and billions of dollars of investment may well be due largely to the insurmountable barriers that perpetuation of the existing integrated Verizon have created. Given the persistently slow pace at which local competition in the District has been able to develop under the existing *integrated* operation of Verizon. especially in light of recent CLEC bankruptcies. together with the enormous marketing advantages that Verizon will acquire in selling its long distance services to what are essentially captive residential and small business subscribers. allowing Verizon into the long distance market at this time is decidedly inconsistent with the public interest Verizon can and. as the experience in New York amply confirms. will use its dominance of the local market to preemptively sell its long distance services to inbound customers. and even with minimal marketing and advertising generally can be expected to rapidly increase its share of the District's long distance market to the point of substantial market dominance. Rather than increasing competition in long distance services as the Company contends will arise as a result of its entry. market concentration will grow, competition will suffer. and prices to consumers will inevitably rise.

101. Once Verizon DC has obtained §271 authority, its incentives for further compliance with §251 and §252 of the 96 *Act* will be significantly diminished. The absence of successful competitive entry and penetration in the District's local service market, the potential for Verizon DC "backsliding" once its long distance business has been established, and the serious risk that Verizon DC will come to monopolize the District's long distance market as well, all portend a serious and permanent diminution of competition in the District, leading ultimately to higher prices and fewer choices for DC consumers.

102. Although Section 272 requires structural separation of the BOC and its Section 272 affiliate for the first three years following 271 approval (unless further extended by the FCC), in those regions where Verizon has been granted interLATA authority, the Company consistently operates in a manner that simulates full integration while purporting to "comply," albeit facially, with the separate affiliate requirement. Through cross subsidies and predatory pricing in the form of joint marketing, billing, and product tie-ins, Verizon Long Distance is able to leverage the Verizon DC 91.8% *local* market share into pricing plans that cannot possibly be matched by its IXC competitors, even by competitors offering a bundle of local and long distance service. Unless Verizon DC agrees to comply in a meaningful way with the Section 272 code of conduct, the Company will be able to exploit its affiliate relationships *to* the detriment of CLECs, IXCs and customers alike. Moreover, given Verizon's position before the FCC regarding BOC-wide sunset of the Section 272 separate affiliate requirements, it may have no obligation to adhere to any federal competitive safeguards in its provision of interLATA services. For all of these reasons, approval of Verizon DC's Section 271 Application is not in the public interest, and the Commission should recommend to the FCC that Verizon DC's Application be rejected unless

and until the specific recommendations set forth at paragraph 10 above, along with the general concerns expressed throughout this affidavit. have been addressed.

Before the

PUBLIC SERVICE COMMISSION
OF THE DISTRICT OF COLUMBIA

In the Matter of Verizon Washington. D.C.. Inc.'s Compliance With the Conditions Established in Section 271 of the Federal Telecommunications Act of 1996	**Formal Case No. 1011**

COMMONWEALTH OF MASSACHUSETTS)
) ss.
COUNTY OF SUFFOLK)

AFFIDAVIT OF LEE L. SELWYN

2. The foregoing Affidavit identified as OPC Exhibit A in FC 1011 was prepared based upon my review of the testimony being proffered by Verizon Washington. D.C. in support of its Application for authority, pursuant to Section 271 of the *Telecommunications Act of 1996* ("TA96" or "Act"), to enter the in-region long distance market in the District of Columbia, and various other pertinent documents.

I certify that the foregoing statements made by me are true and correct to the best of my knowledge, information and belief. I am aware that if any of the foregoing statements made by me are willfully false, I am subject to punishment.

Lee L. Selwyn

Subscribed and sworn to before me this 23rd day of September, 2002.

Notary Public

My commission expires 3/31/06

Attachment OPC A-1

Statement of Qualifications
Lee L. Selwyn

Statement of Qualifications of
LEE L. SELWYN

Dr. Lee L. Selwyn has been actively involved in the telecommunications field for more than twenty-five years. and is an internationally recognized authority on telecommunications regulation. economics and public policy. Dr. Selwyn founded the firm of Economics and Technology. Inc. in *1971.* and has served as its President since that date. He received his Ph.D. degree from the Alfred P. Sloan School of Management at the Massachusetts Institute of Technology. He also holds a Master of Science degree in industrial Management from MIT and a Bachelor of Arts degree with honors in Economics from Queens College of the City University of New York.

Dr. Selwyn has testified as an expert on rate design. service cost analysis. form of regulation. and other telecommunications policy issues in telecommunications regulatory proceedings before some forty state commissions. the Federal Communications Commission and the Canadian Radio-television and Telecommunications Commission. among others. He has appeared as a witness on behalf of commercial organizations. non-profit institutions. as well as local. state and federal government authorities responsible for telecommunications regulation and consumer advocacy.

He has served or is now serving as a consultant to numerous state utilities commissions including those in Arizona. Minnesota. Kansas. Kentucky. the District of Columbia. Connecticut. California. Delaware. Maine. Massachusetts. New Hampshire. Vermont. New Mexico. Wisconsin and Washington State. the Office of Telecommunications Policy (Executive Office of the President). the National Telecommunications and Information Administration. the Federal Communications Commission. the Canadian Radio-television and Telecommunications Commission. the United Kingdom Office of Telecommunications. and the Secretaria de Comunicaciones y Transportes of the Republic of Mexico. He has also served as an advisor on telecommunications regulatory matters to the International Communications Association and the Ad Hoc Telecommunications Users Commiaee. as well as to a number of major corporate telecommunications users. information services providers. paging and cellular carriers, and specialized access services carriers.

Dr. Selwyn has presented testimony as an invited witness before the U.S. House of Representatives Subcommittee on Telecommunications. Consumer Protection and Finance and before the U.S. Senate Judiciary Committee. on subjects dealing with restructuring and deregulation of portions of the telecommunications industry.

In 1970. he was awarded a Post-Doctoral Research Grant in Public Utility Economics under a program sponsored by the American Telephone and Telegraph Company. to conduct research on the economic effects of telephone rate structures upon the computer time sharing industry. This work was conducted at Harvard University's Program on Technology and Society. where he was appointed as a Research Associate. Dr. Selwyn was also a member of the faculty at the College of Business Administration at Boston University from 1968 until 1973. where he taught courses in economics. finance and management information systems.

Dr. Selwyn has published numerous papers and articles in professional and trade journals on the subject of telecommunications service regulation. cost methodology. rate design and pricing policy. These have included:

"Taxes. Corporate Financial Policy and Return to Investors"
National Tax Journal. Vol. XX. No.4. December 1967.

"Pricing Telephone Terminal Equipment Under Competition"
Public Utilities Fortnightly. December 8. 1977.

"Deregulation. Competition. and Regulatory Responsibility in the Telecommunications Industry"
Presented at the 1979 Rate Symposium on Problems of Regulated Industries - Sponsored by: The American University. Foster Associates. Inc., Missouri Public Service Commission. University of Missouri-Columbia. Kansas City. MO. February 11 - 14. 1979.

"Sifting Out the Economic Costs of Terminal Equipment Services"
Telephone Engineer and Management. October 15. 1979.

"Usage-Sensitive Pricing" (with G. F. Borton)
(a three part series)
Telephony. January 7.28. February 11. 1980.

"Perspectives on Usage-Sensitive Pricing"
Public Utilities Fortnightly. May 7. 1981

"Diversification. Deregulation. and Increased Uncertainty in the Public Utility Industries"
Comments Presented at the Thirteenth Annual Conference of the Institute of Public Utilities, Williamsburg. VA - December 14 - 16. 1981.

"Local Telephone Pricing: Is There a Better Way?: The Costs of LMS Exceed its Benefits: a Report on Recent U.S. Experience."

Proceedings of a conference held at Montreal. Quebec - Sponsored by Canadian Radio-Television and Telecommunications Commission and The Centre for the Study of Regulated Industries. McGill University. May 2 - 4, 1984.

"Long-Run Regulation of AT&T: A Key Element of A Competitive Telecommunications Policy"
Telematics, **August 1984.**

"Is Equal Access an Adequate Justification for Removing Restrictions on BOC Diversification?"
Presenred at the Institute of Public Urilities Eighteenth Annual Conference. Williamsburg. VA - December 8 - 10. 1986.

"Market Power and Competition Under an Equal Access Environment"
Presenred ai the Sixteenth Annual Conference. "Impacr of Deregulation and Marker Forces an Public Urilities: The Future Role of Regularion"
Institute of Public Urilities. Michigan State University, Williamsburg. VA - December 3 - 5. 1987.

"Contestable Markets: Theory vs. Fact"
Presenred ai the Conference on Current Issues in Telephone Regulations: Dominance and Cost Allocarion in Interexchange Markers - Cenrer for Legal and Regulatory Studies Department of Management Science and Informarion Systems - Graduate School of Business. University of Texas ai Austin. October 5. 1987.

"The Sources and Exercise of Market Power in the Market for Interexchange Telecommunications Services"
Presented at rhe Nineteenth Annual Conference- "Alternatives to Traditional Regulation: Options tor Reform" - Institute of Public Utilities. Michigan State University. Williamsburg. VA. December. 1987.

"Assessing Market Power and Competition in The Telecommunications Industry: Toward an Empirical Foundation for Regulatory Reform"
Federal Communications Law Journal. Vol. 40 Num. 2, April 1988.

"A Perspective on Price Caps as a Substitute for Traditional Revenue Requirements Keylation"
Presented ai the Twentieth Annual Conference - "New Regulatory Concepts, issues and Controversies" - Insrirure of Public Utilities. Michigan State University. Williamsburg. VA, December. 1988.

"The Sustainability of Competition in Light of New Technologies" (with D. N. Townsend and P. D. Kravtin)
Presented ai the Twentieth Annual Conference- Institute of Public Utilities Michigan State University. Williamsburg. VA. December. 1988.

-'Adapting Telecom Regulation to Industry Change: Promoting Development Without Compromising Ratepayer Protection" (with S. C. Lundquist)
IEEE *Communications Magazine.* January. **1989.**

"The Role of Cost Based Pricing of Telecommunications Services in the Age of Technology and Cornpetition"
Presented at *National Regulatory Research Institute Conference.* Seattle. July **20. 1990.**

"A Public Good/Private Good Framework for Identifying POTS Objectives for the Public Switched Network" (with Patricia D. Kravtin and Paul **S.** Keller)
Columbus. Ohio: ***National*** *Regulatory Research Institute.* September **1991.**

-'Telecommunications Regulation and Infrastructure Development: Alternative Models for the Public/Private Partnership"
Prepared for the ***Economic Svmposium*** *of the International Telecommunications Union Europe Telecom '92 Conference.Budapest. Hungary.* October **15. 1992.**

-'Efficient Infrastructure Development and the Local Telephone Company's Role in Competitive industry Environment" *Presented* at */he Twenty-Fourth Annual Conference. Institute* ***of*** *Public Utilities. Graduare School* ***of*** *Business. Michigan Stare University. "Shifting Boundaries between Regulation and* ***Comperirion in*** *Telecommunications and Energy"*. Williamsburg. **VA.** December 1992.

"Measurement of Telecommunications Productivity: Methods. Applications and Limitations" (with Françoise M. Clones)
Presented ***ai*** *Organisation for Economic Cooperation and Development. Working* ***Party*** *on Telecommunication and Information Services Policies. '93 Conference "Defining Performance Indicators for Competitive Telecommunications Markers". Paris. France,* February **8-9.** 1993.

"Telecommunications Investment and Economic Development: Achieving efficiency and balance among competing public policy and stakeholder interests"
Presented ***ai*** *the 105th Annual Convention and Regulatory Symposium. National Association of Regulatory Utility Commissioners. New York.* November 18. ***1993.***

"The Potential for Competition in the Market for Local Telephone Services" (with David **N.** Townsend and Paul S. Keller)
Presented at the Organization for Economic Cooperation and Development Workshop on Telecommunication Infrastructure ***Competirron.*** December *6-7.* ***1993.***

"Market Failure in Open Telecommunications Networks: Defining the new natural monopoly." *Utilities Policy. Vol.*4. No. 1. January ***1994.***

The Enduring Local Bottleneck: Monopoly Power and the Local Exchange Carriers. (with Susan M. Gately. et al) a report prepared by ETI and Hatfield Associates. Inc. for AT&T. MCI and CompTel. February 1994.

Commercially Feasible Resale of Local Telecommunications Services: An Essential Step in rhe Transirion to Effective Local Competition. (Susan M. Gately. et al) a report prepared by ETI for AT&T. July 1995.

"Efficient Public Investment in Telecommunications Infrastructure" *Land Economics*. Vol 71. No.3. August 1995.

Funding Universal Service: Maximizing Penetration and Efficiency in a Competitive Local Service Environment. Lee L. Selwyn with Susan M. Baldwin. under the direction of Donald Shepheard. A Time Warner Communications Policy White Paper, September 1995.

Stranded Investment and the New Regularow Bargain. Lee L. Selwyn with Susan M. Baldwin. under the direction of Donald Shepheard. A Time Warner Communications Policy White Paper. September 1995

"Market Failure in Open Telecommunications Networks: Defining the new natural monopoly." in *Networks, Infrastructure, and the New Task for Regulation*. by Werner Sichel and Donal L. Alexander. eds.. University of Michigan Press. 1996.

Establishing Effective Local Exchange Comperirion: A Recommended Approach Based Upon an Analysis of the United States Experience. Lee L. Selwyn, paper prepared for the Canadian Cable Television Association and filed as evidence in Telecom Public Notice CRTC 95-96. Local Interconnection and Network Component. January 26. 1996.

The Cost of Universal Service. A Critical Assessment of the Benchmark Cost Model, Susan M. Baldwin with Lee L. Selwyn. a repon prepared by Economics and Technology. Inc. on behalf of the National Cable Television Association and submitted with Comments in FCC Docker ho. CC-96-45. April 1996.

Economic Considerations in rhe Evaluation of Alrernarive Digital Television Proposals. Lee L. Selwyn (as Economic Consultant). paper prepared for the Computer Industry Coalition on Advanced Television Service. filed with comments in FCC MM Docket No. 87-268. In rhr Matter of Advanced Television Systems and Their Impact Upon the Existing Television Broadcast Service. July 11. 1996.

Assessing Incumbent LEC Claims to Special Revenue Recovery Mechanisms: Revenue opportunities. marker assessments, and further empirical analysis of the "Gap" between embedded and forward-looking costs. Patricia D. Kravtin and Lee L. Selwyn. In the Matter of Access Charge Reform. in CC Docket No. 96-262. January 29. 1997.

The Use of Forward-Looking Economic Cost Proxy Models. Susan M. Baldwin and Lee L. Selwyn. Economics and Technology. Inc.. February 1997.

The Effect of Internet Use On The Nation's Telephone Network. Lee L. Selwyn and Joseph W. Laszlo. a report prepared for the Internet Access Coalition. July 22. 1997.

Regulatory Treatment of ILEC Operations Support Systems Costs. Lee L. Selwyn. Economics and Technology. Inc.. September 1997.

The 'Connecticut Experience" with Telecommunications Competition: A Case in Getting it Wrong. Lee L. Selwyn. Helen E. Golding and Susan M. Gately. Economics and Technology. Inc.. February 1998.

Where Have All The Numbers Gone?: Long-term Area Code Relief Policies and the Need for Short-term Reform. prepared by Economics and Technology. Inc. for the Ad Hoc Telecommunications Users Committee. International Communications Association. March 1998.

Broken Promises: A Review of Bell Atlantic-Pennsylvania's Performance Under Chapter 30. Lee L. Selwyn. Sonia N. Jorge and Patricia D. Kravtin. Economics and Technology. Inc.. June 1998.

Building A Broadband America: The Competitive Keys to the Future of the Internet. Lee L. Selwyn, Patricia D. Kravtin and Scott A. Coleman. a repon prepared for the Competitive Broadband Coalition. May 1999.

Bringing Broadband to Rural America: Investment and Innovation In the Wake of the Telecom Act. Lee L. Selwyn. Scott C. Lundquist and Scott A. Coleman. a report prepared for the Competitive Broadband Coalition. September 1999.

Dr. Selwyn has been an invited speaker at numerous seminars and conferences on telecommunications regulation and policy. including meetings and workshops sponsored by the National Telecommunications and Information Administration. the National Association of Regulatory Utility Commissioners. the U.S. General Services Administration. the Institute of Public Utilities at Michigan State University. the National Regulatory Research Institute at Ohio State University. the Harvard University Program on Information Resources Policy, the Columbia University Institute for Tele-Information. the International Communications Association. the Tele-Communications Association, the Western Conference of Public Service Commissioners. at the New England. Mid-America. Southern and Western regional PUC/PSC conferences. as well as at numerous conferences and workshops sponsored by individual regulatory agencies.

Attachment OPC A-2

"Verizon Asks PSC to Support Company's Request To Offer Long Distance in Nation's Capital", Verizon New Release, July 12, 2002.

News Release

Vernon Asks PSC To Support Company's Request To Offer Long Distance in Nation's Capital

Filing Brings Washingtonians Closer to Full Telecom Competition

July 12, 2002

Media contact:
Sandra Arnette, 202-392-1021
Harry Mitchell. 304-344-7562

WASHINGTON - Consumers in the Nation's Capital are a major step closer to enjoying full telecommunications competition.

Verizon today notified me District of Columbia Public Service Commission (PSC) that the company plans to file an application later this year with the Federal Communications Commission (FCC) to offer long-distance service in Washington. D.C

Saying that me local Phone market is obviously and irreversibly open to competition Verizon is taking the *next* step in its bid to offer long-distance service lo consumers and businesses in the District

Verizon is seeking the PSC's support of the company's upcoming long-distance application with the FCC. which ultimately *has* the authority to allow Verizon to offer long-distance service in the District.

The FCC has 90 days to review Venzon's long-distance bid once the company files its application with the federal agency The PSC and the U S Department of Justice will provide their consultations to the FCC before it makes a decision

"It's time for Washingtonians to reap the benefits of full lelecommunications competition that consumers elsewhere are enjoying today." said Marie C. Johns, president of Vernon Washington. D.C. "District consumers should be able to realize sanngs similar to those available today in New York. Massachusetts, Pennsylvania, Connecticut. Rhode Island, Vermont. Maine and New Jersey"

Venzon now offers long-distance service in 44 slates and to 80 percent of its local phone customers across the country

"we've worked very hard over the past few years to reach this point, and we look forward to proving our readiness to the commission." said *Johm*

Consumers are sanng as much as $1.8 billion annually from local and long-distance competition associated with Vernon's entry into long-distance markets according to studies analyzed by Vernon. The savings are based on projections from a variety of indepsndent economists and consumer watchdog groups

The research shows that after Verizon's entry into long distance, both local and long-distance competitors work harder to gain and keep customers.

"This always works to customers' advantage," Johns said. "As Verizon is permitted to enter more long-distance markets, that will bring the benefits of long-distance competition to more consumers, and the roughly $1.8 billion in savings for consumers can be expected to grow substantially."

Today's filing with the PSC provides extensive detail showing that Verizon Washington, D.C. has met a 14-point competitive checklist specified in the federal Telecommunications Act of 1996. This checklist stipulates the criteria former Bell companies must satisfy to demonstrate they have opened their local networks to competitors. Meeting this checklist is a prerequisite for Verizon to receive federal permission to offer long-distance service in Washington.

The filing provides ample evidence that local telecommunications competition is present and growing in the District:

- Competitive local exchange carriers (CLECs) provide at least 199,000 local phone lines to businesses and consumers throughout Washington. Competitors provide local service over their own facilities and over facilities leased from Verizon.
- CLEC customers account for more than 44,000 listings in the white pages of Verizon's Washington, D.C., directory.
- More than 130 CLECs are certified to provide local phone service in Washington. Approximately 40 of those companies actively compete in the city at this time.
- Verizon has approximately 150 existing, in-service collocation arrangements to serve competitors throughout the District.
- Verizon and CLECs exchanged more than 2.3 billion minutes of local calls over their networks in the first four months of 2002, an average of 570 million minutes per month. That represents a 40-percent increase in the average minutes per month from 2001.

During the coming weeks, the PSC will review the entire body of evidence from Verizon, its competitors and other parties. "When the PSC completes its exhaustive examination of the record, we're confident it will support our long-distance application to the FCC," Johns said.

Verizon has moved aggressively to bring full telecom competition to its entire service area. Since December 1999, Verizon has received FCC approval to offer long-distance service in New York, Massachusetts, Connecticut, Pennsylvania, Rhode Island, Vermont, Maine and New Jersey. The company currently has long-distance applications for Delaware and New Hampshire pending at the FCC, and rulings are expected in late September.

In addition to today's filing with the District's PSC, Verizon has asked state regulatory commissions in Maryland, Virginia and West Virginia to support its long-distance filings in those states. The company plans to file federal applications later this year for permission to offer long-distance service in these remaining jurisdictions.

Verizon is the country's fourth-largest long-distance company, with more than 8.2 million long-distance customers.

Verizon Communications

Verizon Communications (NYSE VZ) is one of the worlds leading providers of communications services Vernon companies are the largest pmwders of wireline and wireless communications m the United States with 133 8 million access line equivalents and approximately 29.6 million wireless customers Vernon is also the largest directory publisher in the world With more than $67 billion in annual revenues and nearly 248,000 employees Vernon's global presence extends to more than 40 countries in the Americas Europe Asia and the Pacific For mom information on Verizon wsn www verizon tom

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Attachment OPC A-3

"FCC's Powell Says Telecom 'Crisis' May Allow a Bell to Buy WorldCom", Wall Street Journal, July 15, 2002

Wall Street Journal
July 15, 2002
pages A1, A4

FCC's Powell Says Telecom 'Crisis' May Allow a Bell to Buy WorldCom

By Yochi J. Dreazen

WASHINGTON—Declaring the telecommunications industry in a state of "utter crisis," the chairman of the Federal Communications Commission suggested his agency could allow a Baby Bell to take over WorldCom Inc., a combination once seen as unthinkable.

A merger of a large regional phone carrier and the nation's second-largest long-distance company would reverse the FCC's position on such deals. It could also revive the spirit of AT&T's monopoly before the 1984 court ordered breakup that created the regional Baby Bells, by allowing one company to control huge swaths of both markets.

Michael Powell

But in his first public comments on the unfolding WorldCom scandal, FCC Chairman Michael Powell said the industry's battered, debt-ridden condition now leaves regulators little choice but to consider such options, especially if the alternatives would disrupt phone and data service to WorldCom's 20 million customers. To keep WorldCom's operations stable, he also called for the government to continue its billions of dollars in federal contracts with the company, rather than pull back as some White House officials have suggested.

Mr. Powell cautioned that a Bell's bid for WorldCom would still be far from certain to win regulatory approval. But one remedy for the broader industry's ills, he said, could be major consolidations along thr lines the defense industry went through in lhr 1990s.

"There are plenty of doctrines in antitrust and competition policy that would take into consideration the duress and state of the market," said Mr. Powell, who in the Clinton administration was a top official or the Justice Department's antitrust division. "If a Bell company brought a deal to us, that would certainly be part of the consideration."

Elsewhere in the 'Crisis'

- Andersen was notified about WorldCom accounting irregularities but ignored the warnings, A3
- Several bidders made offers for Qwest's directories business Friday, B4

Just five years ago, then-FCC Chairman Reed Hundt helped sink a potential $50 billion merger between the Baby Bell SBC Communications Inc. and AT&T Corp. - still the leading long-distance carrier - by publicly labeling such a combination "unthinkable" because of its size.

A deal between a Bell and WorldCom also could lead to further consolidation as the other Bells scrambled to acquire AT&T and Sprint Corp. as a way of keeping pace. Mr. Powell, however, suggested that Bells probably would have trouble affording such acquisitions.

Damage to the telecommunications sector, the FCC chairman said, extends far beyond ailing companies such as WorldCom, Global Crossing Ltd. and Qwest Communications International Inc. Even relatively stable companies such as Verizon Communications Inc. and SBC

Please Turn to Page A4, Column 1

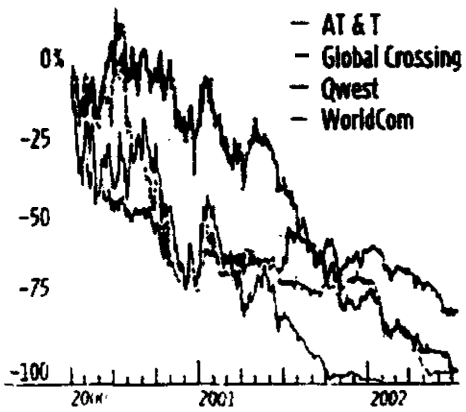
FCC Chief Says Telecom Crisis Could Change Rules

Wrong Numbers

FCC Chairman Michael Powell said the telecommunications industry is in a state of "utter crisis" brought about by a wave of bankruptcies, accounting scandals, and plunging stock prices.

Stock prices plummet...

Percent change of four major telecom companies' shares since March 2000:



As the industry melts down

The last two years have been rough on telecom companies by any measure.

- At the end of 2000 there were *330* competitive local-exchange carriers challenging Baby Bells. Today there are fewer than 80.
- In the past two years, investors have suffered more than $2 trillion in paper losses from a greater than 60% drop in the telecom sector's *market value*.
- Capital spending by telecom companies declined 25% last year and is forecast to drop another 20% this year.
- As of March, only 10% of the 39 million miles of fiber-optic cables stretched out under the U.S. was in use.

Sources: Thomson Datastream; WSJ research

Continued From First Page

face huge challenges now that lenders are extremely hostile to telecom companies.

"The real problem is that there was a collapse in this sector, a crisis in this sector, even before all of this happened," he said, noting that WorldCom's share price had plunged to $1 before the accounting scandal broke. "That's why this is so painful to the telecom market—talk about something that was down on its knees and didn't need to be kicked in the gut."

Mr. Powell said a big concern is that other telecommunications companies may be hiding their own accounting irregularities. He declined to name specific companies, but said his agency is trying to be prepared for the impact a bankruptcy filing by WorldCom or other carriers would have on their customers.

In a wide-ranging interview in his office where an oversized flat-screen computer monitor sits on a sprawling desk, Mr. Powell said the government bore some responsibility for the industry's problems, which began with the frenzy to create new companies following the landmark 1996 Telecommunications Act. The law allowed Bells and long-distance companies to enter each other's markets to foster increased competition, but didn't address the prospect that they would look to acquire each other and reduce the number of competitors.

Mr. Powell said that he thinks the FCC may have erred in the past by implicitly encouraging the formation of hundreds of Bell competitors without realizing how few of them would ultimately be able to survive. Many of those companies borrowed heavily to finance their quick expansion but have since filed for bankruptcy or appear likely to do so in the near future.

"We correctly believed these markets didn't need to be natural monopolies and they could be competitive, but I think we tended to over-exaggerate how quickly and how dramatically it could become competitive," Mr. Powell said.

Pressure to show profits apparently led companies such as WorldCom to cook their books when their performance failed to live up to expectations. "It wouldn't shock me," Mr. Powell said, "if there were more companies that couldn't resist those pressures honestly."

Mr. Powell's remarks came days after former WorldCom executives ac-

ny's revenues by almost $1 billion angered lawmakers at a congressional hearing by refusing to testify. One of the executives, former WorldCom chief financial officer Scott Sullivan, has told the company's internal investigators that ousted chief executive officer Bernard J. Ebbers knew of his plan to shift billions of dollars of normal expenses into capital expenditures accounts, boosting the company's earnings, congressional investigators said. Mr. Ebbers's attorney denies that account.

Mr. Powell said Messrs. Sullivan and Ebbers deserve to be punished for their roles. "At the end of the day, the officers of a corporation are responsible for the credibility and value of that corporation," Mr. Powell said. "This was classic dime-store fraud, and it may have spread deep into the company like a cancer."

Nevertheless, he made clear the company's long-distance and data services operations need to be kept stable, though the General Services Administration is reviewing WorldCom's government contracts and the White House has said it might bar federal agencies from signing new deals with the company.

The government "ought to be very, very careful about adding to the circumstances that might collapse the company," he said. "This is a significant com-

pany whose assets are critical components of the entire network. It would be messy if they became unavailable."

WorldCom's current management, including new CEO John Sidgmore, said Thursday that a bankruptcy filing by the company, based in Clinton, Miss., was looking increasingly likely. Protecting WorldCom's business and residential customers is rapidly becoming a hot political issue. On Friday, Senate Commerce Committee Chairman Ernest F. Hollings wrote Mr. Powell that his "foremost responsibility is to protect the integrity and reliability of the nation's telecommunications network." The South Carolina Democrat also asked Mr. Powell to detail the agency's contingency plans.

At this point, Mr. Powell said, WorldCom's officials and lenders have given assurances that the company would continue to fully maintain its voice and data networks. "It's going to be a tricky situation because there will need to be a major restructuring of the company or its assets that doesn't lead to service outages," Mr. Powell said. "We're watching closely, but for now I think the company and the banks believe that keeping the networks running is in everyone's best interest."

Still, he said, "things are becoming more acute by the day."

Attachment OPC A-4

Verizon and SBC Press Releases Announcing In-Region Long Distance Market Share

Verizon Communications Posts Strong Results For Fourth Quarter and 2000

Feb 01,2001

High-Growth Services Fuel Revenue Gains; Company Meets Financial Goals and Delivers Adjusted EPS of 77 Cents for Quarter. $2.91 for Year

YEAR-END HIGHLIGHTS

- 540,000 DSL (digital subscriber line) customers vs. 500.000 target
- 1.4 million New York long-distance customers vs. 1 million target
- 1.2 million net new U.S. wireless customers in quarter. 27.5 million total
- Data revenues grow 30 percent for the year
- 108.8 million access line equivalents (ALEs), with data circuits as measured in ALEs growing 60 percent
- Telecom package sales increase 71 percent yearsver-year
- Proportionate international wireless customers grow 47 percent to 8.1 million

Verizon Communications announced today that fourth quarter 2000 reported earnings of 70 cents per diluted share, on net income of $1.9 billion, increased 11.1 percent from 63 cents, or S1.7 billion. in fourth quarter 1999. For 2000. reported earnings per share (EPS) were $4.31, or $11.8 billion. a 45.1 percent increase from $2.97. or $8.3 billion, in 1999. Reported results for all periods incorporate the net after-tax effect of gains, charges and other adjustments described below.

Adjusted EPS for fourth quarter 2000 of 77 cents. or $2.1 billion, increased 2.7 percent from 75 cents. or $2.1 billion, in fourth quarter 1999. For the year, adjusted EPS rose 2.5 percent to $2.91, or $8.0 billion. from $2.84. or $7.9 billion, in 1999, in line with the company's previously announced financial targets. Adjusted results for fourth quarter 1999 include results of the U.S. wireless properties of Vodafone Group Plc that became part of Verizon Wireless as of April 2000.

Continuing strong demand for high-growth services such as wireless and data. and solid volumes for voice services, drove a 6.7 percent increase in adjusted consolidated revenues from current operations, lo (616.9 billion, from $15.8 billion in fourth quarter 1999. Full-year adjusted consolidated revenues from current operations grew 7.2 percent, to $63.4 billion from $59.2 billion in 1999. Adjusted revenues in all periods exclude revenues from certain significant operations sold in 1999 and 2000.

"Our solid operating performance in 2000 confirms both the validity of our business model end our ability to execute on it." said Verizon Chairman and Co-CEO Charles R. Lee.

"Last year, we completed two major transactions that gave us the scale as well as the financial strength and flexibility lo deliver sustained. profitable growth in competitive markets. We integrated organizations without missing a beat and made full use of our new capabilities. We started a long-distance operation in New York that established a new model for simplicity and value and won more than 20 percent of the consumer market; we worked through numerous industry-wide challenges to begin meeting the tremendous demand for broadband services; we

Appendix 1

A Critical Examination of the "Independence" of the Telecommunications Research and Action Center Studies Regarding Alleged Consumer Benefits Following BOC Entry Into the Long Distance Market

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The Telecommunications Research and Action Center ("TRAC") describes its primary goal as "promot[ing] the interests of residential telecommunications customers."[1] TRAC has published what it claims to be "independent" studies (all with nearly identical conclusions) for numerous Verizon-region states. plus California. Illinois. Florida. and Georgia. The studies purport to show that consumers will "benefit" from BOC entry into the long distance market in the form of lower prices for long distance and local services.

The conclusions reached by TRAC in its various studies are not credible. First. although TRAC poses as an advocate for consumer interests. the organization's funding can be traced back to the RBOCs. Second. and more importantly. the methodology that TRAC employs is seriously flawed and grossly exaggerates the savings. if any. that consumers might plausibly obtain from RBOC long distance entry. The BOCs have directly and indirectly relied upon the results of the various TRAC studies in suppon of their Section 271 applications for interLATA

1 http://www.trac.org/about/index.html. accessed 09/18/02.

authority.[2] Any reliance by a state public utility commission upon the conclusions of these studies or upon any extrapolations or inferences derived therefrom would be highly misplaced.

The **TRAC** Studies are not independent studies, but **rather** were paid for and **sponsored** by a Washington, **DC** public relations firm whose clients include **Verizon, Qwat. SBC, BellSouth**, and their industry lobbying **organization**, the United States **Telecom** Association.

TRAC's own characterization of its group **as** an advocate for "the interests of residential telecommunications customers" does not withstand scrutiny. In fact, TRAC is neither "independent." nor is there any basis to portray it as a consumer group. TRAC is registered as a not-for-profit corporation organized under **§501(c)(3)** of the US Internal Revenue Code.[3] As a not-for-profit corporation. TRAC files IRS Form 990-EZ return annually with the Internal Revenue Service: these returns are supposed to be made public and are available from the National Center for Charitable Statistics (NCCS).[4]

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2 I **I** not directly submitted to the state public utility commission as pan of its Section **271** application. the BOCs frequently refer to calculations of consumer benefits made by ".independent economists" and "consumer watchdog groups" in press releases announcing the submission of the 271 application for state review. **See.** for example. Verizon News Releases, "Verizon: Stud! Reinforces Why New Jersey Consumers Should Not Have To Wait For Savings On Phone Bills." December 13.2001: "Verizon Asks PSC to Support Company's Request to Offer Lon; Distance in Maryland." April 12, 2002: "Verizon Asks PSC to Support Company's Request to Offer Long Distance in West Virginia." June 11. 2002: and "Verizon Asks PSC to Support Company's Request to Offer Long Distance to Nation's Capital." July **12,2002.**

3 U.S.C § 501(c)(3)

4 **As** of June **8.** 1999. all 501(c) organizations — except private foundations — are required to send copies of their three most recent Form 990 (as well as their Form **1023, the** form to apply for tax-exempt status) to anyone who requests them. The TRAC Form 990 for **2000** is available at **nccs.urban.org/990/**.